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Speech

Remarks of
Jeffrey N. Shane
Under Secretary for Policy
Department of Transportation

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It is a special privilege to participate in this important symposium. Both personally and on behalf of U.S. Secretary of Transportation Norman Y. Mineta, I would like to thank the U.S. Trade and Development Agency, China's General Administration for Civil Aviation, and everyone else who has helped to make this forum possible. Thank you for providing an invaluable opportunity for us to learn more about China's aviation system and to conduct a comprehensive dialogue between our two nations about the further development of that system.

Aviation Liberalization

I would like to focus my remarks this morning on the importance of liberalizing the framework for *international* air services – reducing the role of governments in decisions that should be made by airline managers based solely on commercial considerations.

In the past, efforts by the U.S. Government to engage its trading partners in liberalizing aviation relations have been the subject of some skepticism. Because U.S. airlines for many years were the world's largest, most efficient, and the most successful, some observers felt that the U.S. campaign to liberalize international aviation markets was nothing more than an effort to help U.S. airlines establish dominant positions in as many markets as possible.

It is no secret that the financial troubles that have afflicted airlines around the world have hit U.S.-based international airlines particularly hard. The difficulties currently faced by U.S. "legacy carriers" are widely covered in the financial pages of our newspapers. It is also widely known that a number of non-U.S. international airlines – including some from Asia – now rival U.S. airlines in efficiency, and enjoy greater profitability. You might expect, under these circumstances, that the U.S. Government therefore might want to pause in its quest for more open markets. Perhaps this is a time when the U.S. Government should offer its airlines at least a brief respite from competitive pressures.

We are not pausing. Indeed, we are redoubling our efforts to create more economic opportunity for airlines everywhere.

The quest for liberalization in international air transport markets has never been about establishing a dominant position for U.S. airlines. It has been an effort to establish conditions in which international air transport makes its maximum contribution to global economic growth.

We know that markets sometimes decline. They are sensitive to broader economic trends, geopolitical developments, and of course occasional health related concerns. And airlines sometimes fail. The U.S. airline industry has lost some of its great names over the years, even while the industry as a whole grew stronger and more competitive.

These are transient phenomena. They are not a reason to divert from the conviction that reliance on market forces is still the best aviation policy.

This is no longer a conviction limited to the U.S. It is fair to say, in fact, that the international debate about whether liberalization is right approach ended some time ago. At a worldwide ICAO Air Transport Conference last year in Montreal there was a clear consensus among the member states that liberalization was not only the right policy, but inevitable in today's globalized economy. There is an increasing recognition that the principal obstacles to air transportation fulfilling its potential are international agreements that limit entry into markets, prescribe prices or routes or types of equipment that can be operated, and preclude carriers from competing.

The U.S. now enjoys Open Skies relationships with 60 of its trading partners, but the number of Open Skies agreements between other countries – agreements the U.S. is not party to – is also growing. A number of APEC economies have now come together in a multilateral Open Skies agreement – thereby establishing more liberal relationships both with the U.S. and with each other. And the U.S. and the European Union are now in negotiations toward the creation of a far more open and competitive aviation market across the North Atlantic.

The trend should not be surprising. Study after study has shown that Open Skies agreements help to expand the overall market for aviation and produce enormous benefits for millions of passengers. Just picking out one statistic from one of our own studies of the trans-Atlantic passenger market a few years back, the average fare between 1996 and 1999 decreased twice as much in Open Skies transatlantic markets (20 percent) as it did in non-Open Skies transatlantic markets (10 percent). More important, overall traffic growth in the US-Europe market increased nearly 30 percent during this brief period.

The widespread acceptance of Open Skies is now placing increasing pressure on those markets that have not yet been liberalized. Recognizing that Open Skies agreements deliver so many important economic benefits – lower costs for air travel, cheaper imports, more competitive exports, tourism, jobs, and economic growth – governments now find themselves in competition with each other -- striving to liberalize their international aviation markets faster than their neighbors in the hope of attracting major international hubs for international passengers and air cargo. The march of aviation liberalization is thus unstoppable. I would submit to you that the only issue that most countries face today is not *whether* they will liberalize their markets, but *when*.

U.S.-China Air Services

It is important that we consider the U.S.-China aviation relationship within this broader context. That relationship, as many of you know, has not yet been adjusted to this new reality.

It is important to consider, first, what has happened in the China-U.S. trade relationship. China-U.S. trade has risen dramatically since we established formal economic relations in 1979, increasing from $4.8 billion in 1980 to $170 billion in 2003. As a result, the United States has become China's largest export destination, and China is the United States' fastest growing export market. U.S. companies have increased exports to China by more than forty percent in the last two years, and had invested nearly $500 billion in China as of June 2003.

Here in China, the civil aviation sector is expected to grow more than 8 percent per year, in part because of preparations for the 2008 Olympic Games. That rate of growth will make China the second largest aviation market in the world, after the United States.

There is a problem in this picture, however: It is that commercial air services between China and United States are currently governed by a bilateral air transport agreement that is wholly out of step with today's requirements. Simply stated, the agreement is a fundamental obstacle to achieving what is truly possible in one of the world's most important bilateral trade relationships.

Let me be more specific. Our aviation relationship is based on a bilateral agreement first signed in 1980. That agreement provided for a very limited introduction of service by just one carrier from each country in the first two years. The number then went to two airlines from each side. While the agreement has been amended every three to five years since that time to permit incremental increases in service, the market remains, by any measure, excessively restricted. The most recent amendment, negotiated in 1999, provides that each side may designate four airlines to serve the market with a grand total of 54 roundtrip flights per week.

Fifty-four flights per week. A total of 108 for both sides. Perhaps the inadequacy of that number will be clearer if I tell you that there are more than 300 flights per week between the U.S. and Japan – nearly three times the number of flights currently permitted between the U.S. and China. We have an agreement, in other words, that no longer serves the needs of our two great economies.

First, the agreement will impede the growth and development of China's airlines. As the world's aviation markets are increasingly opened up in keeping with the emerging global consensus about the importance of liberalization, the race will go to the swift. It is imperative that China's airlines keep pace with its many strong and efficient international competitors, or they will be prevented from taking their rightful place as world-class players in the newly emerging global marketplace for international air services.

But our current air services agreement is not just a problem for airlines; it is also a problem for our larger economic relationship. A 54-flight limit actually discourages traffic growth in a market we should be working to expand. Our present air services agreement, if not modernized, will actually act as a serious impediment to future growth in China-U.S. trade.

In short, we have a clear obligation – in the interest of our two peoples -- to establish a far more contemporary framework for the air services that link our communities together. In so doing, we will help promote trade and travel between our nations and strengthen our ability to work together, and with other nations, in creating an international air transport system that meets the needs of the new global marketplace.

I am pleased to report that China and the United States are taking that obligation seriously. We are again conducting consultations about our aviation relationship, and about the importance of further expanding air services between our countries. Our representatives have recently met in Beijing and Washington to discuss increasing the level of passenger and freight capacity in the market, and another round of negotiations is scheduled to take place here in Beijing later this month. We need a framework for air services worthy of our larger economic relationship, and I am encouraged that the two sides are negotiating productively toward that objective.

U.S.-China Aviation Cooperation Program

We also seek other ways in which to strengthen the aviation relationship between our countries – other ways to work more closely with our Chinese partners. That is why I am so pleased to be here today to launch the U.S. Government-Industry Aviation Cooperation Program, which will operate through the American Chamber of Commerce in Beijing. This program, appropriately called the "Wright Brothers Partnership" as we enter the second century of powered flight this year, will provide a forum in which public and private sector representatives from our respective aviation communities can work together to strengthen ties and better understand our common needs. I would like to commend the President of Boeing China, David Wang, who will speak in just a few moments, for his work in developing this joint effort.

In this case, the U.S. Government and U.S. industry will come together to maximize synergies in order to assist China in developing its aviation infrastructure. The Aviation Cooperation Program will increase awareness of U.S. technology, product standards, and services, while promoting safer operations and more efficient management in China's aviation sector. These efforts, I believe, will lead to an increase in job growth and trade between our two nations while helping us to move forward together towards a common future in the aviation industry.

The Wright Brothers Partnership had its first meeting with Vice Minister Liu Shao Yong and others in the CAAC leadership on March 23rd, at which the Minister pledged his cooperation and gave us a preliminary list of China's top safety priorities. Through this Partnership, we will be able to make more efficient use of U.S. public and private sector resources in tackling safety challenges. Our Federal Aviation Administration, which provides aviation safety oversight in the United States, is strongly committed to this effort, and is extremely enthusiastic about the prospect of developing closer working relationships, at all levels, with the CAAC. I would encourage all of you here today to participate in the Partnership to the greatest extent possible.

Conclusion

We look forward to expanding our aviation relationship with China so that air transport is given the opportunity to realize its full potential as an essential contributor to the growth of our two great economies. Thank you very much for the opportunity to share these thoughts with you.

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